



# Deutsche Euroshop AG

Neutral → | Target price : 41.00 EUR

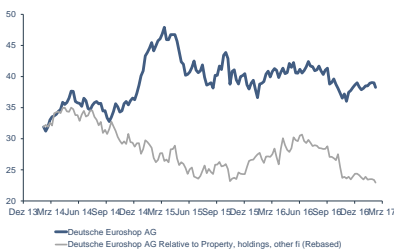
Price (08/03/2017) : 38.26 EUR | Upside : 7 %

	Est.chg	2016e	2017e
EPS		-	-

## FY 2016 preliminaries above our estimates and guidance – capital increase for the acquisition of a well-positioned new shopping centre

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### Good set of preliminaries, acquisition of a new shopping centre

On Tuesday (7 March) after the market close DES released preliminary key figures for the full year 2016 that were overall above our estimates, consensus and the company's own guidance. Rental revenues of € 205.1m slightly surpassed the guidance range of € 200m-204m (our estimate: € 203.5m, consensus: € 204.0m). As previously announced, DES reported significant valuation gains of € 145.5m from unrealized changes in market values (incl. € 116.8m from investment properties and € 28m from investments at equity). FFO I p/s of € 2.41 rose by 4% yoy, beating our estimate of € 2.30, consensus of € 2.33 and guidance (€ 2.26-2.30). The FFO I improvement was related among others to lower interest costs and slightly higher rental revenues. Additionally, DES announced the signing of a purchase agreement for a shopping centre in the Czech Republic with an investment volume of € 382m, financed by a capital increase of 4.5m new shares conducted Wednesday morning (8 March), existing loans and the issuance of new ones.

#### Capital

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Market Cap (EURm)	2,064
Enterprise value (EURm)	3,539
Extrema 12 months	35.92 - 42.52
Free Float (%)	78.5

#### Performance (%)

	1m	3m	12m
Absolute	-1.4	3.9	-1.4
Perf. rel. Country Index	-3.7	-1.9	-10.6
Perf. rel. Property, holding	-2.8	-3.0	-10.8

#### P&L

	12/16e	12/17e	12/18e
NRI (EURm)	183	187	188
EBIT (EURm)	294	207	209
Attr. net profit (EURm)	231	144	148

Adjusted EPS (EUR)	4.28	2.67	2.75
FFOI ps (EUR)	2.30	2.39	2.46
Dividend (EUR)	1.40	1.45	1.50
NAV ps (EUR)	35.71	36.99	38.29
EPRA NAV ps (EUR)	41.45	42.94	44.47

P/E (x)	9.3	14.3	13.9
P/NAV (x)	1.11	1.03	1.00
P/EPRA NAV (x)	0.96	0.89	0.86
FFOI Yield (%)	5.8	6.2	6.4
Dividend Yield (%)	3.5	3.8	3.9
FCF Yield (%)	2.85	4.28	4.44
ROE (%)	12.5	7.4	7.3
Net LTV (%)	39.8	39.3	38.8

#### Next Events

28.04.2017	FY Results
11.05.2017	Q1 Results
15.08.2017	Q2 Results

### DES: Full year 2016 key preliminary figures

€ m	2015	Prelim 2016	YoY %	2016e	2016 Consensus
Revenues	202.85	205.10	1.1%	203.56	204.03
EBIT	176.30	178.60	1.3%	176.89	175.95
Measurement gains	220.56	116.80	-47.0%	117.48	n.a.
FFO I	123.36	129.90	5.3%	124.27	125.51
FFO I per share (EUR)	2.29	2.41	5.4%	2.30	2.33

Source : Company Data, FactSet Consensus, Oddo Seydler Bank AG

### A well-positioned shopping centre with FFO I accretion potential

Despite strong demand for shopping centres and the difficulty of acquiring one at a reasonable price, DES was finally able to secure the acquisition of 100% of a large shopping centre that it will fully consolidate. The Olympia centre is located in Brno, the second largest city in the Czech Republic, and will be the third largest shopping centre in DES's portfolio with ~85,000 sqm of lettable space. It has more than 200 tenants, a ~1.5% vacancy rate, generates rental income of € 19.5m and has a NOI yield of 5.1%, which is slightly below the DES's portfolio NOI yield of 5.24%. DES forecasts a 3% increase in FFO I generation on an annual basis from this acquisition, taking into account the increased number of shares.

The capital increase is EPRA NAV dilutive, as the placement price of the capital increase was € 37.00 p/s vs. an EPRA NAVPS of € 43.24 at YE 2016, raising ~€ 165m equity. However, DES is confident it can offset the dilution by increasing the value of the shopping centre and raising its FFO I generation. The debt financing for the centre of € 217m consists of existing loans as well as new ones at a ~2.1% interest rate.

Management indicated a refinancing of € 200m debt in the coming weeks which will be FFO I-accretive, in our view. Details on the 2017 outlook are expected on 28 April (final 2016 results/annual report).

### Neutral recommendation confirmed – TP at € 41.00

In our opinion, DES is a defensive investment with reliable cash flows. However, the company's external growth potential is limited, despite the recent acquisition, as it is careful not to overpay on transactions. We confirm our Neutral rating with a TP of € 41.00. This is equivalent to a discount of 5% to the 2016 EPRA NAVPS of € 43.24, which is in line with the average of its peers.

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**Property | Germany**

**Neutral**

Upside 7.18%

Price 38.26EUR

TP 41.00EUR

PER SHARE DATA (EUR)	12/12	12/13	12/14	12/15	12/16e	12/17e	12/18e
EPRA NAV per share	28.53	30.59	33.17	38.51	41.45	42.94	44.47
NAV per share	24.50	26.49	28.26	32.77	35.71	36.99	38.29
FFO I per share	1.68	2.08	2.23	2.29	2.30	2.39	2.46
Reported EPS	2.36	3.17	3.29	5.73	4.28	2.67	2.75
Net dividend per share	1.20	1.25	1.30	1.35	1.40	1.45	1.50
FCF to equity per share	-1.45	0.68	2.92	2.30	1.14	1.64	1.70
Number of shares market cap	53.95	53.95	53.95	53.95	53.95	53.95	53.95
Number of diluted shares	52.26	56.90	57.01	53.95	53.95	53.95	53.95
<b>VALUATION</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15</b>	<b>12/16e</b>	<b>12/17e</b>	<b>12/18e</b>
12m highest price	31.99	34.60	37.93	47.92	42.52	39.24	
12m lowest price	23.78	29.45	30.64	36.18	35.86	37.89	
(*) Reference price	28.48	31.79	34.49	41.82	39.81	38.26	38.26
Capitalization	1,536	1,715	1,861	2,256	2,148	2,064	2,064
P/E (x)	12.2	10.6	11.1	7.3	9.3	14.3	13.9
P/FFO I (x)	17.0	15.3	15.4	18.3	17.3	16.0	15.6
FFO I Yield (%)	5.9	6.5	6.5	5.5	5.8	6.2	6.4
Dividend Yield (%)	4.2	3.9	3.8	3.2	3.5	3.8	3.9
Payout ratio (%)	71.6	60.2	58.2	59.0	60.7	60.5	60.9
FCF Yield (%)	neg	2.1	8.5	5.5	2.9	4.3	4.4
P/NAV (x)	1.16	1.20	1.22	1.28	1.11	1.03	1.00
P/EPRA NAV (x)	1.00	1.04	1.04	1.09	0.96	0.89	0.86
(*) historical average price							
<b>PROFIT AND LOSS (EURm)</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15</b>	<b>12/16e</b>	<b>12/17e</b>	<b>12/18e</b>
Rental revenue	178	188	201	203	204	208	210
NRI	160	170	182	183	183	187	188
Total revenue	160	170	182	183	183	187	188
Property revaluation	13.9	56	77	221	117	27.2	28.0
EBITDA	166	222	254	397	294	207	209
Adj. EBITDA	152	166	178	176	177	180	181
EBIT	166	222	254	397	294	207	209
Net financial income	-62.1	-34.1	-39.8	-2.1	-42.9	-38.5	-36.1
Corporate tax	19.1	-16.6	-37.2	-85.4	-20.7	-24.8	-24.8
Profit/loss of discontinued activities (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Attributable net profit	122	171	177	309	231	144	148
FFO I	87	112	121	123	124	129	133
<b>BALANCE SHEET (EURm)</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15</b>	<b>12/16e</b>	<b>12/17e</b>	<b>12/18e</b>
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment properties	2,824	2,962	3,060	3,357	3,494	3,541	3,589
Inventory	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Assets held for sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets	161	40.8	58.3	70.7	59.1	58.8	77.2
Ordinary shareholders equity	1,322	1,429	1,524	1,768	1,927	1,995	2,066
Minorities interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholder equity							
Net debt	1,307	1,446	1,372	1,337	1,391	1,393	1,394
Deferred tax liabilities	181	198	227	310	310	321	334
<b>CASH FLOW STATEMENT (EURm)</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15</b>	<b>12/16e</b>	<b>12/17e</b>	<b>12/18e</b>
Attributable net profit	122	171	177	309	231	144	148
Property revaluation	-36.5	-60.5	-88.3	-285.4	-117.5	-27.2	-28.0
Interest & taxes	0.0	-29.7	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating cash flow	122	115	133	136	106	109	113
Cash flow from investing activities	-197.4	-78.6	24.5	-11.9	-45.1	-20.9	-21.0
Cash flow from financing activities	179	-136.8	-139.8	-109.4	-72.9	-88.6	-73.4
Free cash flow	-75.5	36.6	157	124	61.3	88.3	91.7
<b>GROWTH MARGINS PRODUCTIVITY</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15</b>	<b>12/16e</b>	<b>12/17e</b>	<b>12/18e</b>
Rental revenue growth		5.5%	6.8%	1.0%	0.4%	2.3%	0.8%
FFO I growth		28.7%	7.6%	2.4%	0.7%	3.8%	2.8%
EPS growth		28.3%	3.5%	84.2%	-25.4%	-37.5%	2.9%
NRI margin	89.6%	90.5%	90.5%	90.4%	90.1%	90.0%	89.7%
EBITDA margin	92.9%	118%	127%	196%	145%	99.6%	99.6%
Adj. EBITDA margin	94.9%	97.4%	97.6%	96.1%	96.5%	96.2%	96.2%
Tax rate	-18.4%	8.8%	17.4%	21.6%	8.2%	14.7%	14.3%
SG&A / NRI	6.8%	4.3%	3.4%	4.3%	4.3%	4.3%	4.3%
FFO I / Real estate (Total properties)	5.4%	5.6%	5.8%	5.3%	5.1%	5.1%	5.0%
FFO I / Rental revenues	54.5%	65.8%	66.3%	67.2%	67.8%	68.8%	70.4%
Property revaluation / Investment properties	0.5%	1.9%	2.5%	6.6%	3.4%	0.8%	0.8%
ROA	3.7%	5.0%	5.1%	8.0%	5.7%	3.5%	3.5%
ROE		12.4%	12.0%	18.8%	12.5%	7.4%	7.3%
<b>DEBT RATIOS</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14</b>	<b>12/15</b>	<b>12/16e</b>	<b>12/17e</b>	<b>12/18e</b>
Equity ratio							
Net LTV	46%	49%	45%	40%	40%	39%	39%
Gearing							
Net debt / Adj. EBITDA	8.6	8.7	7.7	7.6	7.9	7.7	7.7
Adj. EBITDA / net financial charges	-2.4	-2.9	-3.0	-3.2	-2.9	-3.1	-3.2

• **Valuation method**

Our target prices are established on a 12-month timeframe and we use three valuation methods to determine them. First, the discounting of available cash flows using the discounting parameters set by the Group and indicated on Oddo Securities' website. Second, the sum-of-the-parts method based on the most pertinent financial aggregate depending on the sector of activity. Third, we also use the peer comparison method which facilitates an evaluation of the company relative to similar businesses, either because they operate in identical sectors (and are therefore in competition with one another) or because they benefit from comparable financial dynamics. A mixture of these valuation methods may be used in specific instances to more accurately reflect the specific characteristics of each company covered, thereby fine-tuning its evaluation.

• **Our stock market recommendations**

Our stock market recommendations reflect the RELATIVE performance expected for each stock on a 12-month timeframe.

Buy: performance expected to exceed that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Neutral: performance expected to be comparable to that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Reduce: performance expected to fall short of that of the benchmark index, sectoral (large caps) or other (small and mid caps).

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**Recommendation and target price changes history over the last 12 months for the company analysed in this report**

Date	Reco	Price Target (EUR)	Price (EUR)	Analyst
18.01.17	Neutral	41.00	38.46	Manuel Martin, CEFA,CREA

**Recommendation split**

		Buy	Neutral	Reduce
Our whole coverage	(417)	48%	43%	9%
Liquidity providers coverage	(152)	52%	43%	5%
Research service coverage	(67)	55%	42%	3%
Investment banking services	(40)	68%	28%	5%

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